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Joint Response from UKSA and ShareSoc on behalf of individual investors to

FCA Investment Platforms Market Study Interim Report

To Kate Blatchford-Hick
Competition Division
Financial Conduct Authority

Via Email: investmentplatformsmarketstudy@fca.org.uk

21 September 2018

Dear Ms Blatchford-Hick,

Below are some comments on the above Report, and answers to the questions posed in the Report.

We write as representatives of retail investors who currently use many different on-line platforms as well as a more traditional stockbroker. Member holdings include those in GIAs, ISAs, SIPPs and direct holdings including the use of Personal Crest accounts.

Annex 1 says there are 7 million "customers" and goes on to explain that there are 7 million customer accounts and 37% have multiple accounts. **Hence there are about 5 million individuals with platform accounts.** The 2 million difference is important, and you should correct this in future reports.

We note that Platforms have approx. £500bn AUM and annual revenues of £1.3bn. The average platform account has about £100,000 of AUM, but the median figure is much less. Average revenue per customer is £260 (26bp).

26 bp seems remarkably low. Why is it so? Page 10 of Annex 1 explains that the typical portfolio is

- One third GIA (General Investment Account, i.e. stocks, shares, bonds, EFTs, cash etc.),
- one thirds ISA (slightly more if in D2C than via Advisory) and
- one third SIPP (c.45% advisory).

Any response from UKSA-ShareSoc needs to reflect the fact that, typically, our members have more funds in Platforms than the average. Nevertheless, we have many members who have modest portfolios and we can contribute to the debate about investors who have investments of all sizes.

The report highlights the differences in portfolios' sizes. **We think the analysis should have been undertaken by portfolio size as many of the issues, remedies and actions needed are heavily dependent on portfolios size.** Solutions are not of the one size fits all in many cases.

Your report notes the 47 players in the platform market. They do not all compete head to head. There are various different business strategies and many players focus on particular niche(s). This is obvious when one looks at the following heatmap of platform charges by size of portfolio.

The Daily Mail (thisismoney.co.uk) article (referred to in our answer to Q1) shows heatmaps of costs if you wanted to invest in a Sipp, in shares and investment trusts.

The heatmap table below, compiled by This is Money, takes the costs from the lang cat research but adds 10 share deals spread evenly over 12 months. It shows how much you would have to pay each year to invest at different portfolio sizes and includes the annual fee for a Sipp, 10 fund deals and ten share deals.

This heatmap shows some platforms are better for bigger pots while others are better with a small amount invested.

	£5k	£10k	£20k	£50k	£100k	£200k	£500k	£1m
Hargreaves Lansdown	£164	£210	£300	£545	£770	£1,220	£2,070	£3,320
Alliance Trust	£436	£436	£436	£436	£436	£436	£436	£436
YouInvest	£179	£189	£249	£349	£449	£449	£449	£449
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Interactive Investor	£344	£344	£344	£344	£344	£344	£344	£344
The Share Centre	£323	£323	£419	£419	£419	£419	£419	£419
Fidelity	£108	£125	£160	£265	£440	£790	£1,090	£2,090
Barclays	£340	£340	£375	£480	£655	£1,085	£2,055	£2,055
TD Direct	£239	£256	£295	£540	£595	£945	£1,995	£1,995
iWeb	£190	£190	£190	£190	£280	£280	£280	£280
Halifax	£340	£340	£340	£340	£425	£425	£425	£425
Bestinvest	£90	£105	£135	£225	£375	£825	£1,325	£2,325

Your report should have focussed more on the Gorilla in the midst of this competitive battle. Hargreaves Lansdowne has 30% of this market by income (2017 income £386 million versus market size of £1.3billion) and 16% by AUM (£79 bn out of £500 bn.) Its revenue per customer is £405, versus the industry average of £260, HL average AUM of £83k v £100k and charges of 49bp versus average of 26bp.

30% market share is not necessarily a problem. Tesco has a similar market share of its market.

The issue is whether Hargreaves Lansdowne (or others) is/are adopting anti-competitive behaviour. We worry about

- fund charges and discounts. The lack of easily available, clear, transparent data on platform charges is a concern.
- The difficulties and delays in transferring from one platform to another.

Roger Lawson, a former ShareSoc Chairman, has noted "I have also used Hargreaves Lansdown in the past but transferred to another platform because of their increased charges. That transfer took over 3 months in 2014 which I considered totally unreasonable. Another transfer between different platforms took 3 months in 2015. I wrote on behalf of ShareSoc to the FCA to complain about those and other transfer delays experienced by ShareSoc Members in 2015. Not much seems to have improved so far as transfers are concerned in the last few years so it is good that you have highlighted the delays in transfers in your Report. " We endorse his views.

As regards the other aspects of your Report, our comments are:

1. It is certainly clear that there is a lack of significant competition in the platform market. Your report highlights that many investors don’t appear to examine charges very carefully when choosing a platform. That could be for a variety of reasons some of which you mention. Perhaps they have difficulty comparing charges because of the complexity of the different pricing schemes, or perhaps they value the level of service more importantly. They also clearly have difficulty in switching platforms. Because of the time it takes to switch platforms, the cost, and the effort involved most investors will not switch platforms unless they are deeply unhappy with the service.
2. However, our experience is that there is little to choose between platforms in terms of service.
    i. All of those we know of provide efficient administrative services as regards buying and selling shares, investment trusts and funds.
    ii. Only some provide a good electronic proxy voting service for nominee accounts. We consider it a major differentiator, but they do not promote this feature of their service.
    iii. Another provides real-time share prices on portfolio holdings which we consider another positive differentiator, but otherwise our members tend to select platforms based on the lowest overall charges given their portfolio size and trading patterns.
    iv. However, we are aware of other investors experiencing some difficulties in the past, and particularly so when a platform changes its software. This may partly be due to unfamiliarity with the new software imposing a learning obligation on the client, but can also arise when favoured features are dropped for often no apparent reason. Such changes tend to encourage clients to look again at which platform they should be using.

3. A reason to use (for example) four different platforms is because of the wish to spread the risk of holding all one's assets in one or two brokers. The risk of stockbrokers getting into financial difficulties is well known and this was highlighted in the recent Beaufort case. As a result, our members tend to pick platform operators that are larger companies and which are publicly listed (so they can monitor their financial accounts). This aspect of the market is itself anti-competitive because it means smaller entrants are prejudiced against as investors perceive them to be risky. Hence the larger incumbents such as Hargreaves Lansdowne and Barclays tend to preserve their dominance as investors consider them to be “safer” as regards protection of wealth.
4. So apart from the competition issues mentioned in your report we suggest that the FCA needs also to examine these issues:
    - The protection of holdings in nominee accounts by alleged “ring-fencing” of client holding and cash which is totally undermined by the rules in the Special Administration Regime.
    - The relatively low protection provided by the Financial Services Compensation Scheme in relation to the amounts likely to be invested in platforms, e.g. in pension SIPPs and ISAs.
    - The basic poor legal protection offered by nominee accounts and the failure of almost all stockbrokers to offer personal crest accounts (i.e. where your name is on the share register of the company and your holdings therefore clearly legally your own and not the platform operators).
    - **A new “name on register” electronic system** needs to be provided if “dematerialisation” is to fully happen so that investors can buy and sell shares through any broker and not be locked into one broker as happens at present.
    - Similarly, the requirement to use nominee accounts for ISAs and SIPPs is deeply uncompetitive because it locks clients into one platform from which they have difficulty withdrawing.
    - These issues do not seem to be covered by your Report but are major contributors to the current uncompetitive environment for platform operators.

5. It is unfortunately the case that the development of on-line platforms and the ISA and SIPP regulations which require the use of nominee accounts have resulted in a very anti-competitive environment. Platform operators have effectively succeeded in locking-in their clients for their own commercial benefit. Although the clients can in theory transfer to other platform operators in reality this has been deliberately made to be difficult in our view which is why so few people do it. **We suggest a more fundamental review of how investment ownership is recorded (i.e. share and fund registration systems) needs to be undertaken and legislation put in place to reform it.** At present the systems appear to have been devised for the primary benefit of the platform operators and not their clients, the investors.
6. As regards your comment in the Report about the large amounts of cash held in the accounts of many investors, this might be a temporary phenomenon arising from the very low interest rates currently arising as a result of Government policy. The platforms' interest rate on cash, if paid, is only at a trivial rate. Taking the cash out and putting it into a deposit account would hardly be worth the trouble. In the past investors might have chosen to move cash into bonds or bond funds but with interest rates likely to rise investors might prefer to hold cash at present even though there is little return on it. There is also a school of thought that investors should not try to second guess the market in respect of timing and therefore it is always best to be fully invested. Another school of thought is to drip feed and invest one's money over an extended period so as to average cost one's investment and lower the risk of investing at the top. We note however that platforms profit from having cash in accounts and that the **Regulator should look very closely to see if perverse incentives exist** and are working here to the detriment of customers.

7. We encourage the FCA to take strong and vigorous steps to ensure that transfers are done more promptly by imposing financial penalties on operators who do not meet specific timescales – see our answer to Question 17 below. There should be a clear objective to reduce transfer times to under ten days within the next 2 years. Currently there is a lot of talk but little action in actually improving matters because platform operators seem to have little incentive to make it a priority. The slowness of transfers at present contributes to an uncompetitive market for platform services.
8. Outlawing transfer charges and other penalties of all kinds would encourage a more competitive market place as it would ensure that investors were not discouraged from switching by such charges.

As regards the specific questions posed in your Report, I provide the answers in detail in the Annex to this letter which is attached.

You are welcome to contact us if you have any questions on our comments in this letter.

Yours sincerely

Cliff Weight, ShareSoc

Peter Parry, UKSA

Annex. Answers to specific questions

Q1 Are you aware of specific innovations that display costs and charging information in a way which facilitates consumers making informed investment decisions?

In general, we are not aware of any particular innovations that do this.

Cost and charging information should be presented in such a way that it is easy for consumers to compare the costs and charges of platforms. The FCA could assist by prescribing a particular common presentation standard. This website offers a useful comparison (and an online calculator for comparing costs for a particular circumstance), by way of illustration: http://monevator.com/compare-uk-cheapest-online-brokers/
http://monevator.com/compare-the-brokers/

Heatmaps are useful way of showing charges for different size of investments: see https://www.thisismoney.co.uk/money/diyinvesting/article-2564059/How-Sipp-platform-costing-you.html

https://www.langcatfinancial.co.uk/2015/03/d2c-heatmaps-update/

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Halifax	£340	£340	£340	£340	£425	£425	£425	£425
Bestinvest	£90	£105	£135	£225	£375	£825	£1,325	£2,325

The article shows this heatmap for SIPPs

	£5k	£10k	£20k	£50k	£100k	£250k	£500k	£1m
Hargreaves Lansdown	£23	£45	£90	£225	£450	£1,125	£1,750	£3,000
ATS	£311	£311	£311	£311	£311	£311	£311	£311
AJ Bell	£80	£90	£150	£250	£350	£350	£350	£350
Charles Stanley	£133	£145	£170	£245	£370	£745	£1,370	£2,120
Interactive Investor	£244	£244	£244	£244	£244	£244	£244	£244
The Share Centre	£248	£273	£344	£344	£344	£344	£344	£344
Fidelity	£18	£35	£70	£175	£350	£500	£1,000	£2,000
Barclays	£35	£35	£70	£175	£350	£875	£1,750	£1,750
TD Direct	£114	£131	£170	£415	£590	£1,115	£1,990	£3,740
iWeb	£140	£140	£140	£140	£230	£230	£230	£230
Halifax	£215	£215	£215	£215	£305	£305	£305	£305
bestinvest	£15	£30	£60	£150	£300	£750	£1,250	£2,250

Q2: Bearing in mind the existing costs and charges disclosure requirements[148] found in, for example, COBS 2.2.1R and COBS 6.1.9R (for non-MiFID business) and COBS 2.2A.2R, 6.1ZA.11R and COBS 6.1ZA.12R (for MiFID business), do you think additional disclosure remedies are required to ensure that consumers are able to compare platform charges? If yes, what should those further requirements be and why do existing disclosure requirements not go far enough?

No comment

Q3: Are there any practical challenges, negative effects or limitations of innovations to enhance the comparability of charges and, if so, are there ways in which these could be overcome?

No comment

Q4: Do you think that:
a. third party intermediaries currently face barriers to placing competitive pressure on platforms?
b. the role of third party intermediaries should be enhanced in an effort to improve competitive pressures on platforms and, if so, how?
c. a requirement on platforms to provide third party intermediaries with more data or open data solutions is a good way to enhance their role in an effort to increase competitive pressures on platforms?
d. there are practical challenges or negative effects of enhancing the role of third party intermediaries through introducing a requirement on platforms to provide them with more data or open data solutions. If so, how could these be overcome?

No comment

Q5: Are there any alternative ways to enhance the comparability of charges investors incur when investing through a platform?

Supporting and publicising comparison sites such as the Monevator one referred to in Q1 will make it much easier for consumers to make proper comparisons, thus increasing competitive pressure on platforms.

ShareSoc is planning its own initiative to compare service levels that platforms/brokers offer, by surveying our membership and publishing the results in an easily accessible form. Support for this initiative would be welcome. Note that costs and charges are not the only factor in applying competitive forces to the platform market – service levels such as execution efficiency (and overall "value for money") are equally important.

Q6: Are you aware of specific innovations that display costs and charging information in a way which facilitates consumers making informed choices between investment funds?

No comment

Q7: Do you think additional disclosure remedies are required to ensure that consumers are able to compare fund charges on a platform? If yes, what should those further requirements be and why do existing disclosure requirements not go far enough?

Yes. Fund charges should be clearly and easily visible. In many cases this is currently not the case.

Q8: Are there any practical challenges, negative effects or limitations of innovations to enhance the comparability of fund charges on a platform, if so, are there ways in which these could be overcome?

No comment

Q9: What impact do the commercial arrangements we have identified have on fund managers' incentives, on consumers and on competition?

No comment

Q10: What are the reasons why D2C consumers have significantly higher cash balances than advised consumers?

Without an extensive survey it is impossible to generalise on this question. We can, however, cite one member's own experience. "I note that you report that the average cash level on adviser platforms is only 3.9% vs 8.8% for self-directed investors. In my own case my target level of cash is currently 15%. I can also report that the average level of cash amongst a community of very well informed, sophisticated investors that I belong to is 13%. This high level is not because I am in any way ill-informed but simply because I am being cautious, as markets are at historically high levels and I wish to have cash available to invest in the event of a market decline. I can only assume that advisers are being less cautious, on average (perhaps they think that their clients will feel that they aren't earning their fees if they are not investing client cash). It is often the case that those investing their own money take a more prudent and pro-active approach than those investing other people's money. This is an illustration of the principal-agent problem identified in the Kay Review of Equity Markets https://www.gov.uk/government/news/kay-review-publishes-report-on-uk-financial-sector "

As regards your comment in the Report about the large amounts of cash held in the accounts of many investors, this might be a temporary phenomenon arising from the very low interest rates currently arising as a result of Government policy. the platforms' interest on cash, if paid, is only at a trivial rate. Taking the cash out and putting it into a deposit account would hardly be worth the trouble. In the past investors might have chosen to move cash into bonds or bond funds but with interest rates likely to rise investors might prefer to hold cash at present even though there is little return on it. There is also a school of thought that investors should not try to second guess the market in respect of timing and therefore it is always best to be fully invested. Another school of thought is to invest one's money over an extended period so as to average cost one's investment and lower the risk of investing at the top. We note however that platforms profit from having cash in accounts and that the regulator should look very closely to see if perverse incentives are working here to the detriment of customers.

Q11: How are cash balances held, ie does it tend to be in a wrapper or for certain products, and how long does it stay uninvested for?

Again, we cite one member's own experience "I can only comment on my own case, where the cash is held by the platforms I use and is cycled into and out of specific investments when I feel favourable buying or selling prices become available for those investments. When prices rise I am likely to realise more investments thus increasing the level of cash and to reinvest it when prices fall. I will vary my cash allocation target according to my perception of market conditions plus imminent cash needs for drawdown purposes."

Q12: Are certain types of consumers more likely than others to hold large cash balances and, if so, why?

No comment

Q13: What determines how the level of interest rates on cash balances paid to customers is set?

No comment

Q14: What reasons are there for platforms to charge a platform fee on cash and what are the costs for a platform associated with holding consumers' cash?

We can see no reasons for platforms to charge a platform fee on investor's cash balances. In most cases they rarely appear to pay interest on these balances despite the fact that it seems likely that the platform providers are themselves receiving interest on the cash.

No comment

Q15: How much cash should consumers reasonably hold, and for how long?

This is an unanswerable question and depends entirely on individual consumers' circumstances, risk tolerance, investment strategy and market perceptions. It can only be answered for a given period in hindsight, when the market return over the period in question becomes known and can be compared against that of uninvested cash.

Q16: As set out in paragraph 9.18 there are a number of existing rules which require platforms to disclose information that is relevant to a consumer holding a cash balance. Given the high proportion of cash balances:
a. how could the relevant disclosure requirements be made more effective at warning consumers of the costs and charges associated with holding cash balances?
b. do you think there are better alternative options which could make consumers aware they are holding cash balances and the charges associated with doing so?

In our experience, interest paid to clients and charges levied on cash are not well disclosed. I recommend that account statements that platforms are required to provide show clearly: a) what interest rate is paid to the client; b) the average base rate over the statement period c) what charges have been levied on the cash portion of client assets; d) the average level of cash held by the client in the statement period.

Q17: Is there a role for the FCA in reinforcing the industry initiative to improve transfer times and, if so, what should this role be?

Many ShareSoc members report unacceptable transfer times, the uncertainty of which is a crucial barrier to effective competition between platforms and brokers. Therefore, we believe that it is crucial that the FCA steps in and enforces reasonable but achievable standards for transfers between platforms. The industry has so far shown itself to be incapable of doing so alone and so it is essential that the FCA steps in.

Q18: What is the likely effectiveness and proportionality of:
a. The possible remedies outlined in this section which are intended to make switching easier and increase the competitive pressures operating in the platform market?
b. FCA measures that are intended to improve the switching times and processes by, for example, introducing remedies to shine a light on firms' switching times or setting minimum standards for
transfer times?

Of the measures outlined, we support the banning of exit fees, which deter switching and are thus anti-competitive. We note and approve of the switching time standards set out in the TRIG report of June 2018 but are concerned to ensure that they are actually achieved in practice.

To achieve this, we recommend:

a) **That consumers wishing to switch are clearly informed of the steps outlined in the TRIG report and the step-by-step timescale standards set out in the report, when they initiate a transfer.**
b) **That platforms are required to inform consumers of switching progress (i.e. when each step has completed)**
c) **That consumers should be entitled to compensation when the time standards are not met, proportionate to a) the value of consumers' assets; b) the amount by which the prescribed standard has been exceeded.**

Q19: What should be the scope of a remedy to ban exit fees (ie should the ban apply to platform fees only, or also e.g. product-specific fees)?

It should apply to both.

Q20: Would there be any unintended consequences associated with any of the possible remedies outlined in this section which aim to make switching easier? If so, how could these be overcome?

We are not aware of any unintended consequences

Q21: What costs do advisers incur when reviewing whether they should switch their clients to an alternative platform and then executing a switch?

No comment

Q22: Would guidance on our expectations for adviser switching be useful? If so, what do you think this should cover? If not, what alternative remedies could achieve our aim of ensuring the costs of switching adviser platform are proportionate?

No comment

Q23: What is the likely effectiveness, proportionality and unintended consequences of the remedies listed above (A-C)?

The proposed remedies appear effective, desirable and proportionate.

Q24: Should remedies A-C apply to orphan clients only or other groups of consumers?

We are not aware of any other groups of consumers that are likely to suffer from the same problems.

Q25: Would platforms face any practical challenges in introducing remedies A-C above?

No comment

Q26: We welcome views on whether the issues we have identified with in-house model portfolios are likely to apply across all types of model portfolios and also exist in model portfolios offered by wealth or asset managers.

No comment

Q27: What is the likely effectiveness, proportionality and unintended consequences of the remedies that would:
a. apply current performance and risk disclosure obligations for funds onto model portfolios?
b. require firms to use standardised terminology to describe their strategy and asset allocation, including formalising definitions such as cautious, balanced and adventurous?

Risk and performance definitions that have been used in KIDs have proved utterly specious and misleading. We would therefore be strongly opposed to applying a similar methodology to portfolios and strategies. We agree that the current standard labels (e.g. “cautious”, “balanced”, “adventurous”) are not meaningful. Consumers would be better informed by labels more descriptive of the methodology being applied (e.g. equity-focused, bond focused, dynamic) - with an explanation of the actual methodology, long term historic performance of similar strategies and performance variability over shorter periods e.g. historic maximum drawdowns over 5 or 10 year

periods, spanning a timeframe of at least 50 years). We do not think it is sensible to standardise the labels if the objective of making them more descriptive of the actual strategy is to be achieved.

Q28: To what extent do existing rules go far enough in making platforms' trading practices transparent to retail investors?

We do not have evidence of problems with the transparency of platforms' trading practices.